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FISCAL IMPACT STATEMENT

LS 6296 | **NOTE PREPARED:** Jan 19, 2012
BILL NUMBER: SB 143 | **BILL AMENDED:** Jan 19, 2012

SUBJECT: Automatic Taxpayer Refund.

FIRST AUTHOR: Sen. Kenley | **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: (Amended) The bill provides that for purposes of the automatic taxpayer refund statutes, that the amount of the refund for qualifying taxpayers is determined on a per capita basis by dividing the total amount of excess state reserves available to provide automatic taxpayer refunds by the total number of qualifying taxpayers. The bill specifies that: (1) if the amount of the excess reserves is less than $100,000,000, all of the excess reserves shall be transferred to the Pension Stabilization Fund; and (2) if the amount of the excess reserves is $100,000,000 or more, 50% of the excess reserves shall be transferred to the Pension Stabilization Fund and 50% of the excess reserves shall be used for the purposes of providing an automatic taxpayer refund. (Under current law, the excess reserves are divided equally between the Pension Stabilization Fund and the automatic taxpayer refund, regardless of the dollar amount of the excess reserves.) The bill provides that beginning in 2013: (1) the Office of Management and Budget shall calculate, after the end of each odd-numbered state fiscal year, the total amount of state reserves; and (2) amounts in the State Tuition Reserve Fund are not considered in determining whether state reserves exceed 10% of general revenue. The bill also specifies an additional requirement (a balance in the tuition reserve equal to at least 10% of the tuition support appropriation for the following year) that must be satisfied beginning in 2013 before a transfer may be made.

Effective Date: (Amended) Upon passage; January 1, 2013.

Explanation of State Expenditures: (Revised) *Summary* - The bill makes the following changes to current statute relating to excess reserve transfers and the automatic taxpayer refund.

(1) It changes the transfer amounts to each purpose in the event excess reserve transfers are allowed beginning

in FY 2013. The bill requires 100% of the reserve transfer to be distributed to the Pension Stabilization Fund if the excess reserve to be transferred is less than $100 M. If the excess reserve to be transferred is $100 M or more, the transfers would be made pursuant to current statute where 50% would be transferred to the Pension Stabilization Fund and 50% to the automatic taxpayer refund.

(2) It changes the requirements for transfers to be made from state reserves to the Pension Stabilization Fund and the automatic taxpayer refund effective beginning in FY 2014. In addition to meeting the current 10% reserve requirement relative to general revenue appropriations, the bill would require that the balance in the State Tuition Reserve Fund at the end of a fiscal year equal at least 10% of the calendar year state tuition support appropriation for the following calendar year before any excess reserve transfers could be made.

(3) It changes the schedule under which such transfers could be made beginning in FY 2014. The bill would permit the excess reserve transfers to be made only in the first fiscal year of a biennium based on the total state reserves and the State Tuition Reserve Fund reserves at the end of the second fiscal year of the preceding biennium.

It is estimated that under current statute, the total excess reserve transfer could total $333.6 M in FY 2013 according to the Combined Statement of Estimated Unappropriated Reserve (December 14, 2011). This would result in transfers to the Pension Stabilization Fund and the automatic taxpayer refund in FY 2013 of $166.8 M each. Assuming no change, the excess reserve transfers would be the same in FY 2013 under the bill. The state's FY 2013 combined balances after the two transfers is estimated to total $1,765.3 M. It is indeterminable whether excess reserves or the balance in the State Tuition Reserve Fund will be sufficient at the end of FY 2013 to permit excess reserve transfers in FY 2014.

Background Information - Under current statute, if the total amount of state reserves at the end of the preceding fiscal year exceeds 10% of the general revenue appropriations for the current fiscal year, the amount exceeding 10% of the general revenue appropriations must be transferred as follows: (1) 50% to the Pension Stabilization Fund and (2) 50% to the automatic taxpayer refund.

Explanation of State Revenues: (Revised) *Summary* - The bill would change the distribution of the automatic taxpayer refund credit among taxpayers effective beginning in FY 2013. Under current statute, the tax credit for each taxpayer would be calculated based on the percentage share of the total income tax paid by all taxpayers paid by that taxpayer. Under the bill, the tax credit would be distributed on a per capita basis.

It is estimated that $166.8 M in excess reserves could be transferred to the automatic taxpayer refund. Based on roughly 4 million taxpayers, the refund credit would be $42 per taxpayer under the bill ($42 for a single return and $84 for a joint return).

Background Information - The automatic taxpayer refund is provided through nonrefundable tax credits to eligible individual income taxpayers. To be eligible for the tax credit, a taxpayer must have filed a resident income tax return for the two taxable years preceding the tax year in which the tax credit is made available and must have paid individual income tax for the preceding taxable year. The tax credit must be taken against the taxpayer's income tax liability in the tax year the credit is provided.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: OMB; DOR.

Local Agencies Affected:

Information Sources: *General Fund Combined Statement of Estimated Unappropriated Reserve*, FY 2012-FY 2013, State Budget Agency, December 14, 2011. OFMA Income Tax Databases, 2009.

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